

JENNIFER
PETROLEUMS
LTD.

UNIVERSITY OF ALBERTA

JUL 31 1984

REF:

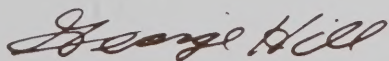
IT

1983 annual report

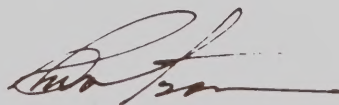
2

	Pro Forma October 31, 1983	October 31, 1983	October 31, 1982
LIABILITIES			
CURRENT LIABILITIES	(note 7)		
Bank indebtedness	\$ 261,558	\$ —	\$ —
Accounts payable and accrued liabilities	633,725	27,196	54,132
Corporate taxes payable	631,299	13,659	15,879
Current maturities on long-term debt	866,660	—	—
	<u>2,393,242</u>	<u>40,855</u>	<u>70,011</u>
LONG-TERM DEBT (note 3)			
Reducing demand production bank loan	5,200,000	—	—
Debentures payable	1,304,000	—	—
	6,504,000	—	—
Less current maturities included in current liabilities .	866,660	—	—
	<u>5,637,340</u>	<u>—</u>	<u>—</u>
PREPAYMENTS AND ADVANCES UNDER GAS SALES CONTRACTS	<u>1,462,529</u>	<u>20,670</u>	<u>—</u>
SHAREHOLDERS' EQUITY			
CAPITAL STOCK (note 4)	1,618,775	1,618,775	1,618,775
DEFICIT	(35,449)	(35,449)	(17,859)
	<u>1,583,326</u>	<u>1,583,326</u>	<u>1,600,916</u>
	<u>\$11,076,437</u>	<u>\$ 1,644,851</u>	<u>\$ 1,670,927</u>
SUBSEQUENT EVENT AND CONTINGENT LIABILITY (note 7)			

Approved by the Board



, Director



, Director

consolidated statement of earnings and deficit

Year Ended October 31, 1983

	<u>1983</u>	<u>1982</u>
Revenue		
Oil and gas sales	\$ 77,089	\$132,181
Interest	<u>1,315</u>	<u>5,125</u>
	<u>78,404</u>	<u>137,306</u>
Expenses		
Production	29,685	34,991
General and administrative	50,746	44,929
Non-productive mining property	8,125	—
Depletion and depreciation	<u>7,438</u>	<u>12,889</u>
	<u>95,994</u>	<u>92,809</u>
Earnings (loss) before income taxes	(17,590)	44,497
Deferred income taxes	<u>—</u>	<u>23,673</u>
NET EARNINGS (LOSS)	(17,590)	20,824
DEFICIT AT BEGINNING OF YEAR	<u>(17,859)</u>	<u>(38,683)</u>
DEFICIT AT END OF YEAR	<u>\$(35,449)</u>	<u>\$ (17,859)</u>
EARNINGS (LOSS) PER SHARE	<u>\$ (0.01)</u>	<u>\$0.01</u>

consolidated statement of changes in financial position

Year Ended October 31, 1983

	<u>1983</u>	<u>1982</u>
WORKING CAPITAL DERIVED FROM		
Operations	\$ —	\$ 26,345
Long-term accounts receivable	31,041	—
Prepayments and advances under gas sales contracts	20,670	—
Issue of capital stock for cash, net of issue costs	<u>—</u>	<u>240,183</u>
	<u>51,711</u>	<u>266,528</u>
WORKING CAPITAL APPLIED TO		
Operations	2,027	—
Additions to property and equipment	<u>75,165</u>	<u>238,848</u>
	<u>77,192</u>	<u>238,848</u>
INCREASE (DECREASE) IN WORKING CAPITAL	(25,481)	27,680
WORKING CAPITAL AT BEGINNING OF YEAR	<u>42,099</u>	<u>14,419</u>
WORKING CAPITAL AT END OF YEAR	<u>\$ 16,618</u>	<u>\$ 42,099</u>

notes to consolidated financial statements

Year ended October 31, 1983

1. Significant Accounting Policies

(a) Consolidation

The consolidated financial statements include the accounts of Jennifer Petroleums Ltd. and its wholly-owned subsidiary companies, Jennifer Petroleums Inc. and Jennifer Petroleums PA, Inc.

(b) Petroleum and Natural Gas Operations

The Company follows the full cost method of accounting for petroleum and natural gas operations whereby all costs of exploring for and developing petroleum and natural gas reserves are capitalized. Costs include land acquisition costs, geological and geophysical costs, carrying charges on non-producing property, costs of drilling both productive and non-productive wells, and related overhead costs. Such costs, net of proceeds on minor disposals of property, are accumulated and depleted on a country by country basis using the unit of production method based upon estimated proven petroleum and natural gas reserves as determined by independent consulting engineers.

Depreciation of petroleum and natural gas production equipment and related facilities is provided using the unit of production method based on estimated proven reserves.

Substantially all of the Company's petroleum and natural gas exploration, development and production activities are conducted jointly with others. These consolidated financial statements reflect only the Company's proportionate interest in such activities.

(c) Foreign Currency Translation

Transactions and balances of the Company which are denominated in currencies other than Canadian dollars are translated into Canadian dollars on the following basis:

- i) current assets and current liabilities at the rate of exchange as at the balance sheet date;
- ii) all other assets and liabilities, and depletion and depreciation, at rates prevailing when the assets were acquired or the liabilities incurred;
- iii) revenue and expenses, except depletion and depreciation, at the average rate in effect during the period.

Gains or losses resulting from such translation practices are reflected in earnings.

2. Property and Equipment

	October 31, 1983			October 31, 1982
	Cost	Accumulated Depletion and Depreciation	Net	Net
Petroleum leases and rights including exploration, development and equipment thereon	\$1,614,026	\$28,505	\$1,585,521	\$1,527,034
Other property and equipment	2,697	840	1,857	742
	<u>\$1,616,723</u>	<u>\$29,345</u>	<u>\$1,587,378</u>	<u>\$1,527,776</u>

3. Long-term Debt

(a) Reducing Demand Production Bank Loan

The \$5,200,000 reducing demand production bank loan bears interest at prime + 1¼% and is repayable out of future production proceeds over five years. Minimum payments on the loan are \$86,666 monthly plus interest.

(b) Debentures Payable

In November 1983, subsequent to the capital stock reorganization described in note 4(a), the Company offered to its Class B common shareholders rights to purchase floating rate convertible redeemable debentures maturing December 31, 1988. The offer was fully subscribed and proceeds of the offering were \$1,304,000. The debentures bear interest at a floating rate equal to the prime rate charged by the Royal Bank of Canada and are convertible into Class A subordinate voting shares from date of issue to December 31, 1988 at a price of \$0.25 per Class A subordinate share.

4. Capital Stock

(a) Authorized

At October 31, 1983 the authorized share capital of the Company consisted of 10,000,000 common shares without par value.

In November 1983 the authorized share capital was changed to an unlimited number of Class A subordinate voting shares without nominal or par value (each holder of a Class A subordinate voting share being entitled to one vote for each such share held) and an unlimited number of Class B common shares without nominal or par value (each holder of a Class B common share being entitled to 25 votes for each such share held). In the event that an offer to purchase Class B common shares is made to all holders of Class B common shares and accepted by more than 50% of such shareholders and an offer to purchase Class A subordinate voting shares on the same terms and conditions is not made, each holder of a Class B share shall, from the date when such shares are taken up pursuant to the terms of the offer, only be entitled to one vote for each such share held.

In November 1983 every two of the previously issued and outstanding 3,260,000 common shares were converted into one Class A subordinate voting share and one Class B common share.

(b) Issued

Changes in the issued capital stock for the two years ended October 31, 1983 are as follows:

	Number of Shares	Carrying Value
Balance at October 31, 1981	2,660,000	\$1,354,919
For cash pursuant to public offering, net of share issue costs and commissions of \$89,817 and related deferred tax reduction of \$23,673	600,000	263,856
Balance at October 31, 1982 and October 31, 1983	<u>3,260,000</u>	<u>\$1,618,775</u>

(c) Common Shares Reserved

As at October 31, 1983, 325,000 common shares were reserved for issue on exercise of outstanding share options granted to directors and officers. The share options have an exercise price of \$0.15 per share and expire September 19, 1986.

In November 1983, subsequent to the issue of floating rate convertible redeemable debentures (see note 3(b)), 5,216,000 Class A subordinate voting shares were reserved to be issued on the conversion of such debentures.

5. Income Taxes

As a result of the acquisition in 1979 of certain petroleum and natural gas properties in exchange for capital stock of the Company in accordance with certain provisions of the Income Tax Act, no deductions

are available for income tax purposes for \$505,000 of property and equipment reflected in the consolidated balance sheet.

At October 31, 1983 the Company had losses of \$731,000 available to be applied against future income otherwise taxable. The deductibility of such losses begins to expire in 1986. Costs included in property and equipment exceed by \$525,000 the related amounts deductible for tax purposes. The net potential tax benefit of the foregoing has not been recognized in the consolidated financial statements.

6. Segmented Information

The Company operates in one industry; the acquisition, exploration and development of petroleum and natural gas properties and the sale of production from such properties. Prior to the acquisition of 212634 Oil & Gas Ltd. (see note 7) these operations were all located in the United States. The operations of 212634 Oil & Gas Ltd. are all located in Canada.

7. Subsequent Event and Contingent Liability

The pro forma consolidated balance sheet gives effect as at October 31, 1983 to the acquisition of 212634 Oil & Gas Ltd. outlined below and the related transactions described in note 3.

Effective November 1983, the Company acquired all the issued and outstanding shares of 212634 Oil & Gas a private corporation with assets in Western Canada. The net assets acquired and values assigned thereto are as follows:

	Net Book Value	Adjustment to Fair Value	Cash Consideration
Property and equipment	\$ 6,259,179	\$2,933,736	\$ 9,192,915
Working capital deficiency	(316,132)	—	(316,132)
Long-term debt	(4,333,340)	—	(4,333,340)
Prepayments and advances under gas sales contracts	(1,441,859)	—	(1,441,859)
Deferred income taxes	(1,339,000)	1,339,000	—
	<u>(7,430,331)</u>	<u>1,339,000</u>	<u>(6,091,331)</u>
Net assets acquired	<u>\$ (1,171,152)</u>	<u>\$4,272,736</u>	<u>\$ 3,101,584</u>

Under the terms of the purchase of 212634 Oil & Gas, the Company agreed to pay to the vendor further amounts contingent upon the realization of such amounts by 212634 Oil & Gas on account of the Alberta royalty tax credit receivable by 212634 Oil & Gas. The contingent consideration and the offsetting potential receivable are not reflected above.

In December 1983, a civil action was commenced by federal and provincial taxing authorities against 212634 Oil & Gas and 23 other corporations and individuals alleging conspiracy during 1979, 1980 and 1981 to receive from the province of Alberta royalty tax credit amounts in excess of the maximum amounts permitted for any corporation or group of associated corporations. Joint and several damages for conspiracy in the amount of \$10 million are claimed of those named in the action or in the alternative a judgement against 212634 Oil & Gas in the amount of \$898,485. The Company's solicitors are of the opinion that the claim, if successful, would be confined to the \$898,485 as against 212634 Oil & Gas. Statements of Defense are being prepared. The potential receivable offsetting contingent consideration referred to above has been withheld by the province of Alberta and accordingly an additional liability should not result.

Revenue Canada, Taxation has disallowed certain costs claimed as deductions from taxable income by 212634 Oil & Gas. Although the additional taxes aggregating \$140,000 arising from the reassessments are reflected in the above summary of net assets, Notices of Objection are being prepared.

8. Statutory Information

Remuneration paid and payable for the year ended October 31, 1983 to directors and senior officers (as defined by the Companies Act (Alberta) to include the five highest paid employees) was \$36,000.

